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The State Department Federal Credit Union (SDFCU) is very concerned with the Federal Reserve Board's recently proposed regulation that would regulate debit card interchange fees and routing. The Fed should implement reasonable interchange regulations that will allow small issuers to continue to be protected from lower interchange fees.

We are concerned that the proposal does not include provisions to enforce the small issuer exemption. We urge the Fed to use its authority to reinforce the small issuer exemption and ensure that it works as Congress intended. It is obvious that large financial institutions get a much better price break from Visa than small financial institutions. SDFCU's total direct variable costs alone of 24.0 cents are double what the Dodd-Frank Act is allowing in debit interchange income per transaction. Between the two alternatives - Alternative 2, "which would allow interchange fees that vary with the value of the transaction up to a 12 cents per transaction cap", would be SDFCU's choice.

The proposed debit interchange rates also concern us, especially if the establishment and maintenance of a two-tiered structure cannot be assured. The Fed should consider all costs of operating a debit interchange system to the maximum extent allowable by law, including all fraud prevention costs such as the cost of new technology that reduces potential fraud.

Even if a two-tiered system is permitted and works in practice, small issuers will be disadvantaged if the provisions on routing and exclusivity that allow merchants to choose how debit card transactions are processed are not implemented properly. We therefore urge the Fed to adopt routing "Alternative A," which would require issuers to provide debit cards that can be used over two unaffiliated networks, such as a PIN-based network and an unaffiliated signature-based network. Requiring more than two networks is inconsistent with statutory requirements and would place an unreasonable regulatory burden on our credit union that could negatively impact service to our members.

We realize that the Federal Reserve Board is only interpreting the Dodd-Frank Act and implementing it's interpretations at Congress's request. SDFCU feels that the Dodd-Frank Act's debit interchange rule should be put on hold and reviewed by Congress, so Congress can take into consideration the comments of the financial institutions this effects.